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State of Montana
Office of the Legislative Auditor

REPORT TO THE LEGISLATURE

THE COMMISSIONER OF HIGHER EDUCATION AND THE BOARD OF REGENTS OF HIGHER EDUCATION

Financial-Compliance Audit for the Two Fiscal Years Ended June 30, 1985

This report contains four recommendations for improvement of operations. The major items addressed in this report include compliance with state and federal laws and regulations.

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FINANCIAL-COMPLIANCE AUDITS

Financial-compliance audits are conducted by the Office of the Legislative Auditor to determine if an agency's financial operations are properly conducted, the financial reports are presented fairly, and the agency has complied with applicable laws and regulations which could have a significant impact on the financial schedules. In performing the audit work, the audit staff uses standards set forth by the American Institute of Certified Public Accountants and the United States General Accounting Office.

Financial-compliance audit staff members hold degrees with an emphasis in accounting. Most staff members hold Certified Public Accountant (CPA) certificates.

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Office of the Legislative Auditor

THE COMMISSIONER OF HIGHER EDUCATION

AND

THE BOARD OF REGENTS OF HIGHER EDUCATION

Financial-Compliance Audit
For the Two Fiscal Years Ended June 30, 1985

Members of the audit staff involved in this audit include: Mary Bryson, Manager; Lois Cearley, Supervisor; Brian Farmer, Senior Auditor; William O'Donnell, Amy Vanica, and Jody Mauel, staff auditors.

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STATE OF MONTANA

Office of the Legislative Auditor

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JOHN W. NORTHEY

May 1986

The Legislative Audit Committee
of the Montana State Legislature:

This is our financial-compliance audit report on the Commissioner of Higher Education and the Board of Regents of Higher Education. The commissioner's written response is included in the back of this audit report. We thank the commissioner and his staff for their cooperation and assistance during the audit.

Respectfully submitted,

Scott A. Seacat
Legislative Auditor

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APPOINTED AND ADMINISTRATIVE OFFICIALS

BOARD OF REGENTS OF HIGHER EDUCATION

		Term Expires
Ted Schwinden, Governor*		1988
Ed Argenbright, Superintendent of Public Instruction*		1988
Carroll Krause, Commissioner of Higher Education*		
Jeffrey Morrison, Chairman	Helena	1987
Dennis E. Lind, Vice Chairman	Missoula	1989
Burt Hurwitz	White Sulphur Springs	1986
Beatrice McCarthy	Anaconda	1990
David R. Paoli, Student Regent	Missoula	1986
Elsie Redlin	Lambert	1991
John P. Scully	Bozeman	1992

*Ex officio members

ADMINISTRATIVE OFFICIALS

Carroll Krause	Commissioner of Higher Education
John H. Noble, Jr.	Deputy Commissioner for Management and Fiscal Affairs

SUMMARY OF RECOMMENDATIONS

This listing serves as a means of summarizing the recommendations contained in the report and the audited agency's reply.

	Page
Recommendation #1	
The Commissioner of Higher Education submit federal grant reports in accordance with federal regulations.	4
Agency Response: Concur. See page 31.	
Recommendation #2	
The Commissioner of Higher Education comply with maintenance of effort requirements for State Student Incentive Grants.	5
Agency Response: Concur. See page 31.	
Recommendation #3	
The Board of Regents of Higher Education comply with state law for establishment of the full Guaranteed Student Loan Advisory Council.	6
Agency Response: Partially concur. See page 31.	
Recommendation #4	
The Board of Regents of Higher Education:	
A. Comply with state law for submission of unified budget requests.	6
Agency Response: Concur. See page 32.	
B. Seek legislation to change the existing law, if necessary.	6
Agency Response: Do not concur. See page 32.	

INTRODUCTION

We performed a financial compliance audit of the Commissioner of Higher Education (CHE) and the Board of Regents of Higher Education (BofR) for the two fiscal years ended June 30, 1984 and 1985. The objectives of our audit were to: 1) determine compliance with applicable state and federal laws and regulations; 2) provide recommendations for improving management and internal controls of the office; and 3) express an opinion on the financial schedules for the two fiscal years ended June 30, 1985.

In accordance with section 5-13-307, MCA, we analyzed the costs of implementing the recommendations made in this report. If we determined that significant costs are associated with implementation of a recommendation, we disclosed the cost in each report section.

BACKGROUND

Board of Regents of Higher Education

Article X of the Montana Constitution establishes the BofR to govern and control the Montana University System. The board is also vested with the general supervision of community colleges. The Board of Regents of Higher Education consists of seven members appointed by the Governor and confirmed by the Senate. The Governor, State Superintendent of Public Instruction, and Commissioner of Higher Education are ex officio members of the board.

Commissioner of Higher Education

Article X of the Montana Constitution requires the BofR to appoint a Commissioner of Higher Education and prescribe the term and duties of the office.

The Commissioner of Higher Education is responsible for overall supervision and coordination of units of the university system. This includes academic planning and curriculum review, budgetary planning and control, providing legal services, and

establishing labor negotiation policies and procedures. The commissioner also administers student assistance programs and federal/private funded programs.

Student assistance programs include the Washington, Alaska, Montana, Idaho (WAMI) cooperative medical program, the Western Interstate Commission for Higher Education (WICHE), State Student Incentive Grants (SSIG), and the Guaranteed Student Loan Program (GSL). The Montana Guaranteed Student Loan Program, established by the 1979 Montana Legislature, allows eligible students to receive guaranteed loans from lender institutions. The Montana Higher Education Student Assistance Corporation sells tax-exempt bonds to allow the lender institutions to sell their loans to a secondary market. We have issued a separate, unqualified opinion on the 1984-85 guaranteed student loan financial statements which were prepared to assist in selling the bonds. Federal/private programs include Talent Search and the Montana Career Information Services.

PRIOR AUDIT RECOMMENDATIONS

Our prior audit report for CHE and BofR was issued for the two fiscal years ended June 30, 1983. Of the nine recommendations still applicable to the office's operations, seven have been implemented and two partially implemented.

One of the recommendations which was partially implemented during the audit period pertains to federal reporting requirements and is discussed on page 3.

FEDERAL AND STATE COMPLIANCE

We examined the financial schedules of the Commissioner of Higher Education and the Board of Regents of Higher Education for the two fiscal years ended June 30, 1985, and have issued our reports thereon dated March 10, 1986. Our examination was made in accordance with generally accepted auditing standards and Standards for Audit of Governmental Organizations, Programs, Activities, and Functions and, accordingly, included such tests of

the accounting records and such other auditing procedures as we considered necessary in the circumstances.

We reviewed compliance with significant state laws that could have a material impact on the financial schedules of the Commissioner of Higher Education and the Board of Regents of Higher Education. Our audit of federal moneys was performed in accordance with the requirements of the U.S. Office of Management and Budget (OMB) "Circular A-102, Attachment P." This circular requires independent audits of financial operations, including compliance with certain federal laws and regulations.

We reviewed major compliance areas in the Talent Search and State Student Incentive Grant (SSIG). The areas reviewed included compliance with specific grant provisions, reporting requirements, and cost allowability.

We noted the following problems in our review of federal and state compliance requiring disclosure in accordance with Attachment P. We determined the effects of noncompliance on program accomplishments and allowability of costs. As a result of our audit, it is our opinion that the deficiencies noted did not significantly affect the successful operations of the programs or the allowability of costs in conformity with program regulations.

Nothing came to our attention in connection with our examination that caused us to believe that the Commissioner of Higher Education and Board of Regents of Higher Education were not in compliance with the terms and provisions of laws and regulations for those transactions not tested.

Reporting Requirements

Federal agencies have established reporting deadlines for receiving reports submitted by grantees. According to OMB "Circular A-102, Attachment H":

> "Federal agencies shall require grantees to submit the Financial Status Reports no later than 30 days after the end of each specified reporting period for quarterly and semi-annual reports, and 90 days for annual and final reports."

Other reports, as required by federal grant agreements, are to be submitted by the deadlines established by the federal agencies.

Four federal reports were not submitted to the federal agency by the required deadline. Reports for the Talent Search and SSIG grants, which were submitted two weeks to three months late, included financial status reports and a performance report. One report due September 30, 1985, was not submitted to the federal agency as of February 1986.

CHE officials stated that extensions had been obtained from the grantor agency. However, CHE only had written documentation of an approved extension for one report, and this report was not submitted prior to the extended deadline. If federal deadlines cannot be met, CHE should obtain written approval from the federal government for extension of the deadline.

This problem regarding late submission of federal reports was noted in the past two audit reports for CHE. CHE officials have established written procedures relating to the preparation and monitoring of federal reports.

RECOMMENDATION #1

WE RECOMMEND THE COMMISSIONER OF HIGHER EDUCATION SUBMIT FEDERAL GRANT REPORTS IN ACCORDANCE WITH FEDERAL REGULATIONS.

Maintenance of Effort

CHE administers the State Student Incentive Grant (SSIG) program. This program was established by the federal government to make grants to states to develop and expand financial assistance to eligible students in attendance at postsecondary education institutions. Federal regulations require the state to pay at least 50 percent of each SSIG student grant. Maintenance of effort requirements provide that annual expenditures of state funds in the program must not be less than either: 1) the average annual expenditures of state funds for the previous three fiscal years, or

2) the average annual expenditure of state funds per full-time equivalent student for these years.

We determined that the maintenance of effort requirements were not met during fiscal year 1983-84. Because the federal requirements were not met, CHE risks losing federal SSIG awards. Agency officials said the state's expenditure level was less than required because the federal grant award was less than CHE had requested. However, the amount expended by the state is not limited to the amount of the federal award. Maintenance of effort requirements are based on expenditure of state funds, not federal funds. CHE should ensure that state expenditures for SSIG are adequate to meet federal requirements.

RECOMMENDATION #2

WE RECOMMEND THE COMMISSIONER OF HIGHER EDUCATION COMPLY WITH MAINTENANCE OF EFFORT REQUIREMENTS FOR STATE STUDENT INCENTIVE GRANTS.

Student Loan Advisory Council

Section 2-15-1520, MCA, creates a Guaranteed Student Loan Advisory Council. This council was created to advise the Board of Regents of Higher Education and to act as a liaison between the board and the private nonprofit corporation designated by the board to administer student loans. Section 20-26-1104, MCA, states that the council shall: 1) monitor the nonprofit corporation to assure that both the students and lenders are adequately served; and 2) advise on the adequacy and proper execution of any contracts entered into between the board and the nonprofit corporation. This council is to consist of seven members, of varying backgrounds, appointed by the Board of Regents of Higher Education (BofR).

During our audit period we noted the council was inactive. We also determined that, currently, no student representative and no representative from a private school were appointed to the

council. Agency officials stated the council has been inactive because they cannot find people interested in serving as members of the council. BofR should take steps to fill the vacant positions on the council.

RECOMMENDATION #3

WE RECOMMEND THE BOARD OF REGENTS OF HIGHER EDUCATION COMPLY WITH STATE LAW FOR ESTABLISHMENT OF THE FULL GUARANTEED STUDENT LOAN ADVISORY COUNCIL.

Unified Budget Request

State law requires BofR and the Board of Public Education (BPE), meeting together as the State Board of Public Education (SBPE), to submit a unified budget request for the educational entities assigned by law to the BofR, BPE, or the SBPE. We determined that a unified budget has not been prepared since 1982. Officials stated that it is not feasible to prepare a unified budget and no meaningful information would be obtained from a unified budget. The BofR should submit unified budget requests as required by law or, if this is not feasible, it should seek legislation to change the existing law.

RECOMMENDATION #4

WE RECOMMEND THE BOARD OF REGENTS OF HIGHER EDUCATION:

A. COMPLY WITH STATE LAW FOR SUBMISSION OF UNIFIED BUDGET REQUESTS; OR
B. SEEK LEGISLATION TO CHANGE THE EXISTING LAW, IF NECESSARY.

INTERNAL CONTROL

We have examined the financial schedules of the Commissioner of Higher Education and the Board of Regents of Higher Education

for the two fiscal years ended June 30, 1985. We issued our opinions dated March 10, 1986, on these schedules. As part of our examination, we made a study and evaluation of the system of control of the agency. Our study evaluated the system as required by generally accepted auditing standards and Standards for Audit of Governmental Organizations, Programs, Activities, and Functions. We classified the controls in the following categories: revenues and receivables; payroll; expenditures and payables; and plant, property, and equipment.

Our study included the control categories listed above. Through our study, we determined the nature, timing, and extent of our auditing procedures. We applied alternative audit tests to revenues and receivables, and payroll because the audit could be performed more efficiently by expanding substantive audit work. We did not perform any testing of plant, property, and equipment because no balance sheet is presented. We did not evaluate the control system to the extent necessary to give an opinion on either individual segments or the system as a whole.

The management of the agency is responsible for establishing and maintaining a system of accounting control. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of control procedures. The objectives of a system are to provide management with reasonable assurance that: 1) assets are safeguarded against loss from unauthorized use or disposition; 2) transactions are executed in accordance with management's authorization; and 3) transactions are recorded properly to permit the preparation of financial schedules in accordance with state accounting policies. Inherent limitations in any system of controls may cause errors or irregularities to remain undetected. The current system evaluation should not be used to project to future periods since the procedures may become inadequate or compliance with them may deteriorate.

The limited purpose of our study described in the first paragraph would not necessarily disclose all material weaknesses in the system. Accordingly, we do not express an opinion on the

system of controls used by the agency. However, our study disclosed no conditions that indicate material control weaknesses.

The preceding four paragraphs are intended solely for the use of management and the Legislature and should not be used for any other purpose. This restriction as to use is not intended to limit the distribution of this document which, upon presentation to the Legislative Audit Committee, is a matter of public record.

AUDITOR'S OPINION LETTER

AND COMMISSIONER OF HIGHER EDUCATION

FINANCIAL SCHEDULES

SUMMARY OF AUDIT OPINION

We issued a qualified opinion on the Schedules of Revenues and Transfers In - Estimate and Actual for the fiscal year ended June 30, 1985, and the Schedule of Agency Fund Activity for the two fiscal years ended June 30, 1985, of the Commissioner of Higher Education. A qualified opinion means that because of the items discussed in paragraphs three and four of the opinion and the misstatements discussed in Note 3 of the Notes to the Financial Schedules, the reader should exercise caution when using financial information from these schedules and the related information on the Statewide Budgeting and Accounting System.

The unqualified opinion issued on the remaining schedules means that the reader may rely on the reasonableness of the financial information presented in the schedules.

We issued an unqualified opinion on the financial schedules of the Board of Regents of Higher Education for the two fiscal years ended June 30, 1985. An unqualified opinion means that the reader may rely on the reasonableness of the financial information presented in these schedules and the related information on the Statewide Budgeting and Accounting System.

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LEGAL COUNSEL:
JOHN W. NORTHEY

The Legislative Audit Committee
of the Montana State Legislature:

We have examined the financial schedules of the various funds of the Commissioner of Higher Education (CHE) for the two fiscal years ending June 30, 1984 and 1985 as shown on pages 12 through 22. Our examination was made in accordance with generally accepted auditing standards and Standards for Audit of Governmental Organizations, Programs, Activities, and Functions and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

As described in Note 1 to the financial schedules, CHE financial schedules are prepared in accordance with state accounting policy. Accordingly, the accompanying financial schedules are not intended to present financial position and results of operations in conformity with generally accepted accounting principles.

CHE accounted for federal grant activity for the State Student Incentive Grant in the Agency Fund during fiscal year 1983-84. According to state accounting policy, discretionary grant money should be accounted for in the Special Revenue Fund. The resulting misstatements are described in Note 3 to the financial schedules.

During fiscal year 1984-85 CHE accrued revenue for the Montana University System Applied Program Satellite (MUAPS) federal grant totaling $17,802. The federal government did not remit these moneys to CHE until fiscal year 1985-86 and the revenue was not available to cover disbursements until fiscal year

1985-86. This accrual of $17,802 caused an overstatement of the Agency Fund balance at June 30, 1985 and an overstatement of additions for the period then ended.

In our opinion, except for the effects of the matter described in paragraph three, the Schedule of Revenues - Estimate and Actual, Special Revenue Fund, presents fairly the results of operations of such fund of the Commissioner of Higher Education for the fiscal year ended June 30, 1984 in conformity with the basis of accounting described in Note 1, which except for the change in State Student Incentive Grant fund classification as described in Note 2, with which we concur, has been applied on a consistent basis.

In our opinion, except for the effects of the matters described in paragraphs three and four, the Schedule of Agency Fund Activity presents fairly the results of Agency Fund activity of the Commissioner of Higher Education for each of the fiscal years ended June 30, 1984 and 1985, in conformity with the basis of accounting described in Note 1, which except for the change in State Student Incentive Grant fund classification as described in Note 2, with which we concur, has been applied on a consistent basis.

In our opinion the schedules listed below present fairly the results of operations and the changes in fund balance of such funds of the Commissioner of Higher Education for each of the fiscal years ended June 30, 1984 and 1985, in conformity with the basis of accounting described in Note 1, which except for the change in State Student Incentive Grant fund classification as described in Note 2, with which we concur, has been applied on a consistent basis.

Schedule Name	Fund	Fiscal Year
Schedule of Changes in Fund Balance	General Special Revenue	Two Fiscal Years Ended June 30, 1985
Schedule of Revenues Estimate and Actual	General Special Revenue	1984, 1985 1985
Schedule of Program Expenditures and Tranfers Out by Fund Budget and Actual	General Special Revenue	1984, 1985 1984, 1985
Schedule of Program Expenditures and Transfers Out by Object	General Special Revenue	1984, 1985 1984, 1985

Our examination was made for the purpose of forming an opinion on the financial schedules referred to in paragraph one. The accompanying Schedule of Federal Grant Cash Receipts is presented for additional analysis and disclosure purposes and is not a required part of the financial schedules of the Commissioner of Higher Education. The schedule has been subjected to the tests and auditing procedures applied in the examination of the financial schedules and, in our opinion, is fairly stated in all material respects in relation to the financial schedules referred to above.

Respectfully submitted,

James Gillett

James Gillett, CPA
Deputy Legislative Auditor

March 10, 1986

COMMISSIONER OF HIGHER EDUCATION
SCHEDULE OF CHANGES IN FUND BALANCE
FOR THE TWO FISCAL YEARS ENDING JUNE 30, 1985

	General Fund	Special Revenue Fund
FUND BALANCE, July 1, 1983	$ -0-	$ 14,448
ADDITIONS:		
Fiscal Year 1984		
Budgeted Revenue		868,262
Nonbudgeted Revenue	892	94,055
Total Revenue	892	962,317
Prior Year Revenue Adjustments	5,946	60,420
Support from State of Montana	88,146,828	
Cash Transfer In		15,652,681
Fiscal Year 1985		
Budgeted Revenue		1,457,036
Nonbudgeted Revenue	1,371	
Support From State of Montana	91,080,864	
Cash Transfer In		17,481,398
Total Additions	179,235,901	35,613,852
REDUCTIONS:		
Fiscal Year 1984		
Budgeted Expenditures & Transfers Out	88,471,615	15,696,988
Prior Year Expenditure Adjustments	(851)	(8,313)
Prior Year Transfers Out Adjustments	(317,098)	
Direct Entries to Fund Balance		(175,132)
Fiscal Year 1985		
Budgeted Expenditures & Transfers Out	91,210,905	17,129,728
Prior Year Expenditure Adjustments	(28,902)	2,867
Prior Year Transfers Out Adjustments	(99,768)	
Total Reductions	179,235,901	32,646,138
FUND BALANCE, June 30, 1985	$ -0-	$ 2,982,162

This schedule is prepared from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules on pages 19 through 22.

COMMISSIONER OF HIGHER EDUCATION
SCHEDULE OF REVENUES - ESTIMATE AND ACTUAL
FOR THE TWO FISCAL YEARS ENDED JUNE 30, 1985

	Service Fees	Investment Earnings	Reimbursement	Federal Assistance	Miscellaneous	Total
FISCAL YEAR 1984-85						
GENERAL FUND						
Estimated Revenue			$ -0-			$ -0-
Actual Revenue			1,371			1,371
Collections Over(Under) Estimate			$ 1,371			$ 1,371
SPECIAL REVENUE FUND						
Estimated Revenue	$331,000	$130,000	$400,296	$ 456,500		$1,317,796
Actual Revenue	304,131	243,158	474,058	435,689		1,457,036
Collections Over(Under) Estimate	$(26,869)	$113,158	$ 73,762	$ (20,811)		$ 139,240
FISCAL YEAR 1983-84						
GENERAL FUND						
Estimated Revenue			$ -0-			$ -0-
Actual Revenue			892			892
Collections Over(Under) Estimate			$ 892			$ 892
SPECIAL REVENUE FUND						
Estimated Revenue	$ -0-	$ -0-	$ -0-	$1,009,160*	$-0-	$1,009,160
Actual Revenue	215,424	152,759	304,013	289,081	1,040	962,317
Collections Over(Under) Estimate	$215,424	$152,759	$304,013	$ (720,079)	$1,040	$ (46,843)

*The Revenue Estimates for fiscal year 1983-84, established in the Federal Assistance revenue class, were intended to be for all revenue classes.

This schedule is prepared from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules on pages 19 through 22.

COMMISSIONER OF HIGHER EDUCATION
SCHEDULE OF PROGRAM EXPENDITURES AND TRANSFERS OUT BY FUND
BUDGET AND ACTUAL
FOR FISCAL YEAR ENDED JUNE 30, 1985

	Administration	Student Assistance	Community College Assistance	Talent Search	Montana Career Information System	Commissioners Appropriation Distribution	Guaranteed Student Loan	Total
GENERAL FUND								
Budget	$792,006	$2,137,075	$3,326,277			$85,045,040		$ 91,300,398
Actual								
Personal Services	585,990							585,990
Operating Expenses	172,647							172,647
Equipment	20,332							20,332
Local Assistance		53,000	3,326,277					3,379,277
Grants		2,007,619						2,007,619
Transfers						85,045,040		85,045,040
Total Actual	778,969	2,060,619	3,326,277			85,045,040		91,210,905
Unspent Budget Authority	$ 13,037	$ 76,456	$ -0-			$ -0-		$ 89,493
SPECIAL REVENUE FUND								
Budget		$2,504,805		$140,000	$190,000	$13,787,210	$1,017,899	$ 17,639,914
Actual								
Personal Services				107,472	110,787		128,467	346,726
Operating Expenses				29,475	33,609		482,866	545,950
Equipment				140	590		8,949	9,679
Grants		2,440,163						2,440,163
Transfers						13,787,210		13,787,210
Total Actual		2,440,163		137,087	144,986	13,787,210	620,282	17,129,728
Unspent Budget Authority		$ 64,642		$ 2,913	$ 45,014	$ -0-	$ 397,617	$ 510,186
PROGRAM TOTAL								
Budget	$792,006	$4,641,880	$3,326,277	$140,000	$190,000	$98,832,250	$1,017,899	$108,940,312
Actual								
Personal Services	585,990			107,472	110,787		128,467	932,716
Operating Expenses	172,647			29,475	33,609		482,866	718,597
Equipment	20,332			140	590		8,949	30,011
Local Assistance		53,000	3,326,277					3,379,277
Grants		4,447,782						4,447,782
Transfers						98,832,250		98,832,250
Total Actual	778,969	4,500,782	3,326,277	137,087	144,986	98,832,250	620,282	108,340,633
Unspent Budget Authority	$ 13,037	$ 141,098	$ -0-	$ 2,913	$ 45,014	$ -0-	$ 397,617	$ 599,679

This schedule is prepared from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules on pages 19 through 22.

COMMISSIONER OF HIGHER EDUCATION
SCHEDULE OF PROGRAM EXPENDITURES AND TRANSFERS OUT BY FUND
BUDGET AND ACTUAL
FOR FISCAL YEAR ENDED JUNE 30, 1984

	Administration	Student Assistance	Community College Assistance	Talent Search	Montana Career Information System	Commissioners Appropriation Distribution	Guaranteed Student Loan	Total
GENERAL FUND								
Budget	$765,876	$2,470,501	$3,128,240			$82,204,979		$ 88,569,596
Actual								
Personal Services	561,824							561,824
Operating Expenses	186,654							186,654
Equipment	1,931							1,931
Local Assistance		50,000	3,128,240					3,178,240
Grants		2,337,987						2,337,987
Transfers						82,204,979		82,204,979
Total Actual	750,409	2,387,987	3,128,240			82,204,979		88,471,615
Unspent Budget Authority	$ 15,467	$ 82,514	$ -0-			$ -0-		$ 97,981
SPECIAL REVENUE FUND								
Budget		$1,714,938		$148,548	$174,209	$13,134,000	$673,150	$ 15,844,845
Actual								
Personal Services				113,386	101,130		92,591	307,107
Operating Expenses				35,162	64,441		462,086	561,689
Equipment					1,135		6,602	7,737
Grants		1,686,455						1,686,455
Transfers						13,134,000		13,134,000
Total Actual		1,686,455		148,548	166,706	13,134,000	561,279	15,696,988
Unspent Budget Authority		$ 28,483		$ -0-	$ 7,503	$ -0-	$111,871	$ 147,857
PROGRAM TOTAL								
Budget	$765,876	$4,185,439	$3,128,240	$148,548	$174,209	$95,338,979	$673,150	$104,414,441
Actual								
Personal Services	561,824			113,386	101,130		92,591	868,931
Operating Expenses	186,654			35,162	64,441		462,086	748,343
Equipment	1,931				1,135		6,602	9,668
Local Assistance		50,000	3,128,240					3,178,240
Grants		4,024,442						4,024,442
Transfers						95,338,979		95,338,979
Total Actual	750,409	4,074,442	3,128,240	148,548	166,706	95,338,979	561,279	104,168,603
Unspent Budget Authority	$ 15,467	$ 110,997	$ -0-	$ -0-	$ 7,503	$ -0-	$111,871	$ 245,838

This schedule is prepared from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules on pages 19 through 22.

COMMISSIONER OF HIGHER EDUCATION
SCHEDULE OF PROGRAM EXPENDITURES AND TRANSFERS OUT BY OBJECT
FOR FISCAL YEAR ENDED JUNE 30, 1985

	Administration	Student Assistance	Community College Assistance	Talent Search	Montana Career Information System	Commissioners Appropriation Distribution	Guaranteed Student Loan	Total
PERSONAL SERVICES								
Salaries	$497,582			$ 89,004	$ 91,519		$107,521	$ 785,626
Employee Benefits	88,408			18,468	19,268		20,946	147,090
Total Personal Services	585,990			107,472	110,787		128,467	932,716
OPERATING EXPENSES								
Contracted Services	25,188			2,456	13,900		369,592	411,136
Supplies and Materials	8,873			625	1,555		2,308	13,361
Communications	25,018			5,459	1,903		7,514	39,894
Travel	25,416			8,411	4,563		17,212	55,602
Rent	66,828			222	6,331		9,201	82,582
Utilities	7,751							7,751
Repair and Maintenance	4,971			1,069	5,038		1,480	12,558
Other Expenses	8,602			11,233	319		75,559	95,713
Total Operating Expenses	172,647			29,475	33,609		482,866	718,597
EQUIPMENT								
Equipment	20,332			140	590		8,949	30,011
Total Equipment	20,332			140	590		8,949	30,011
LOCAL ASSISTANCE								
From State Sources		$ 53,000	$3,326,277					3,379,277
Total Local Assistance		53,000	3,326,277					3,379,277
GRANTS								
From State Sources		4,255,953						4,255,953
From Federal Sources		191,829						191,829
Total Grants		4,447,782						4,447,782
TRANSFERS								
Accounting Entity Transfers						$98,832,250		98,832,250
Total Transfers						98,832,250		98,832,250
TOTAL PROGRAM EXPENDITURES	$778,969	$4,500,782	$3,326,277	$137,087	$144,986	$98,832,250	$620,282	$108,340,633

This schedule is prepared from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules on pages 19 through 22.

COMMISSIONER OF HIGHER EDUCATION
SCHEDULE OF PROGRAM EXPENDITURES AND TRANSFERS OUT BY OBJECT
FOR FISCAL YEAR ENDED JUNE 30, 1984

	Administration	Student Assistance	Community College Assistance	Talent Search	Montana Career Information System	Commissioners Appropriation Distribution	Guaranteed Student Loan	Total
PERSONAL SERVICES								
Salaries	$479,542			$ 94,720	$ 83,898		$ 78,318	$ 736,478
Hourly Wages	661			835	84			1,580
Employee Benefits	81,621			17,831	17,148		14,273	130,873
Total Personal Services	561,824			113,386	101,130		92,591	868,931
OPERATING EXPENSES								
Contracted Services	34,812			2,130	36,013		265,061	338,016
Supplies and Materials	10,750			2,471	2,845		1,746	17,812
Communications	22,365			5,926	8,364		6,796	43,451
Travel	26,055			12,701	5,625		6,920	51,301
Rent	66,828			2,274	5,198		4,928	79,228
Utilities	6,664			350				7,014
Repair and Maintenance	7,567			163	38		818	8,586
Other Expenses	11,613			9,147	6,358		175,817	202,935
Total Operating Expenses	186,654			35,162	64,441		462,086	748,343
EQUIPMENT								
Equipment	1,931				1,135		6,602	9,668
Total Equipment	1,931				1,135		6,602	9,668
LOCAL ASSISTANCE								
From State Sources		$ 50,000	$3,128,240					3,178,240
Total Local Assistance		50,000	3,128,240					3,178,240
GRANTS								
From State Sources		4,024,442						4,024,442
Total Grants		4,024,442						4,024,442
TRANSFERS								
Accounting Entity Transfers						$95,338,979		95,338,979
Total Transfers						95,338,979		95,338,979
TOTAL PROGRAM EXPENDITURES	$750,409	$4,074,442	$3,128,240	$148,548	$166,706	$95,338,979	$561,279	$104,168,603

This schedule is prepared from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules on pages 19 through 22.

COMMISSIONER OF HIGHER EDUCATION
SCHEDULE OF AGENCY FUND ACTIVITY
FOR THE TWO FISCAL YEARS ENDING JUNE 30, 1985

FUND BALANCE, July 1, 1983	$ (4,640)
ADDITIONS:	
Receipts for fiscal year 1983-84	325,530
Receipts for fiscal year 1984-85	131,516
Total Additions	457,046
DEDUCTIONS:	
Deductions for fiscal year 1983-84	325,530
Deductions for fiscal year 1984-85	113,714
Total Deductions	(439,244)
Direct Entry to Fund Balance	4,640
FUND BALANCE, June 30, 1985	$ 17,802

COMMISSIONER OF HIGHER EDUCATION

NOTES TO THE FINANCIAL SCHEDULES

JUNE 30, 1984 AND 1985

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The state of Montana utilizes the modified accrual basis of accounting which is described in the Montana Operations Manual. Under the modified accrual basis of accounting, a valid obligation exists when the related liability is incurred except for the following items which are also considered valid obligations under state accounting policy.

--If the appropriation provided funds to complete a given project, the entire amount of a service contract may be accrued even though the services are rendered in fiscal years subsequent to the fiscal year in which the expenditure is accrued.

--The anticipated cost of equipment is expensed in the fiscal year in which budgeted.

--Goods ordered, but not received as of the fiscal year-end, may be accrued if the purchase order was issued in the fiscal year in which the anticipated expenditure is to be accrued.

Basis of Presentation

The financial schedules were prepared from the Statewide Budgeting and Accounting System (SBAS) without adjustments. Accounts are organized on the basis of funds according to state law. The following fund types are used by the Commissioner of Higher Education (CHE):

General - accounts for all financial resources except those required to be accounted for in another fund.

Special Revenue - accounts for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes. Legislative appropriations are required to spend from this fund type.

Agency - accounts for assets held as an agent by the Commissioner of Higher Education for others. This fund is used to account for grant money distributed to the universities. A legislative appropriation is not required to spend from these funds.

2. CHANGE IN BASIS OF PRESENTATION

Between fiscal years 1983-84 and 1984-85 the Commissioner of Higher Education reclassified the presentation of the State Student Incentive Grant from the Agency Fund to the Special Revenue Fund. According to state accounting policy, discretionary grant money should be accounted for in the Special Revenue Fund. This change was made because it was determined that the Commissioner of Higher Education determines the allocation of this grant money, thereby making it discretionary money.

3. FUND PLACEMENT

During fiscal year 1983-84 the Commissioner of Higher Education accounted for some discretionary grant moneys in the Agency Fund which would have been more appropriately accounted for in the Special Revenue Fund as described in Note 2. The following outlines the over (under) statements in the Agency and Special Revenue Funds.

	Agency Fund	Special Revenue Fund
Beginning Fund Balance		$ (4,640)
Revenues		(165,309)
Expenditures		(165,309)
Prior Year Revenue Adjustments		336
Prior Year Expenditure Adjustments		(336)
Additions	$165,309	
Deductions	165,309	
Prior Year Addition Adjustments	(336)	
Prior Year Deduction Adjustments	336	
Direct Entries to Fund Balance		4,640

4. ANNUAL AND SICK LEAVE

Employees are paid for 100 percent of unused annual and 25 percent of unused sick leave credits upon termination. Accumulated unpaid liabilities for annual and sick leave are not reflected in the financial schedules of the Commissioner of Higher Education. Expenditures for termination pay currently are absorbed in the annual operational costs of the office. At June 30, 1985, the CHE had a liability of approximately $81,045 for annual and sick leave.

5. PENSION PLAN

Employees are covered by the Montana Public Employees' Retirement System (PERS) or Teachers' Retirement System (TRS). The CHE's contributions to these plans are shown below:

	Fiscal Year 1983-84	Fiscal Year 1984-85
PERS	$48,409	$52,841
TRS	68	1,449
Total	$48,477	$54,290

6. GENERAL FUND BALANCE

The General Fund is a Statewide Fund. Agencies do not have a separate General Fund since their only authority is to pay obligations from the Statewide General Fund as long as they stay within their appropriation limits. Thus, on an agency schedule, the beginning and ending fund balance will always be zero for the General Fund.

7. DIRECT ENTRIES TO FUND BALANCE

The $175,132 decrease in the Special Revenue Fund reflects adjustments made by the Commissioner of Higher Education to correct recording errors and omissions from prior periods.

8. TALENT SEARCH INDIRECT COSTS

Expenditures shown for the Talent Search Program for fiscal year 1983-84 include expenditures recorded on SBAS in the Community Services Program. These expenditures were for Talent Search indirect costs.

COMMISSIONER OF HIGHER EDUCATION
SCHEDULE OF FEDERAL GRANT CASH RECEIPTS
FISCAL YEARS 1983-84 AND 1984-85

	Fiscal Year 1983-84	Fiscal Year 1984-85
U.S. DEPARTMENT OF EDUCATION		
State Student Incentive Grants (SSIG)		
Fiscal Year 1980-81	$ -0-	$ (20)
Fiscal Year 1981-82	(324)	-0-
Fiscal Year 1982-83	-0-	(216)
Fiscal Year 1983-84	165,309	(727)
Fiscal Year 1984-85	-0-	192,102
Montana University Applied Program Satellite	168,355	113,714
Vocational Education	36,582	40,000
Talent Search	131,863	137,437
U.S. DEPARTMENT OF LABOR		
JTPA Grant	82,759	60,000
NOICC Funds	21,978	-0-
SOICC Funds	-0-	6,500
Total Receipts	$606,522	$548,790

This schedule is prepared recording receipts on the cash basis. Because of the difference in accounting methods, items on this schedule may not agree to amounts included for federal assistance in the financial schedules.

AUDITOR'S OPINION LETTER

AND BOARD OF REGENTS OF HIGHER EDUCATION

FINANCIAL SCHEDULES

STATE OF MONTANA

Office of the Legislative Auditor

STATE CAPITOL
HELENA, MONTANA 59620
406/444-3122

SCOTT A. SEACAT
LEGISLATIVE AUDITOR

DEPUTY LEGISLATIVE AUDITORS:
JAMES GILLETT
FINANCIAL COMPLIANCE AUDITS
JIM PELLEGRINI
PERFORMANCE AUDITS

LEGAL COUNSEL:
JOHN W. NORTHEY

The Legislative Audit Committee
of the Montana State Legislature:

We have examined the financial schedules of the various funds of the Board of Regents of Higher Education for each of the two fiscal years ending June 30, 1984 and 1985 as shown on pages 25 through 29. Our examination was made in accordance with generally accepted auditing standards and Standards for Audit of Governmental Organizations, Programs, Activities, and Functions and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

As described in Note 1 to the financial schedules, the board's financial schedules are prepared in accordance with state accounting policy. Accordingly, the accompanying financial schedules are not intended to present financial position and results of operations in conformity with generally accepted accounting principles.

In our opinion the financial schedules referred to in paragraph one of the various funds of the Board of Regents of Higher Education present fairly the results of operations and the changes in fund balance of such funds of the board for the fiscal years ended June 30, 1984 and 1985 in conformity with the basis of accounting described in Note 1 applied on a consistent basis.

Respectfully submitted,

James Gillett

James Gillett, CPA
Deputy Legislative Auditor

March 10, 1986

BOARD OF REGENTS OF HIGHER EDUCATION
SCHEDULE OF CHANGES IN FUND BALANCE
FOR THE TWO FISCAL YEARS ENDING JUNE 30, 1985

	General Fund	Special Revenue Fund
FUND BALANCE, July 1, 1983	$ -0-	$1,097,101
ADDITIONS:		
Fiscal Year 1984		
Budgeted Revenue & Transfers In		1,702,526
Prior Year Transfers In Adjustments		25,649
Support from State of Montana	24,423	
Fiscal Year 1985		
Budgeted Revenue & Transfers In		1,959,006
Prior Year Transfers In Adjustments		12,847
Support from State of Montana	25,722	
Total Additions	50,145	3,700,028
REDUCTIONS:		
Fiscal Year 1984		
Budgeted Expenditures	24,439	
Prior Year Expenditure Adjustments	(16)	
Cash Transfers Out		1,686,455
Fiscal Year 1985		
Budgeted Expenditures	25,647	
Prior Year Expenditure Adjustments	75	
Cash Transfers Out		1,957,544
Total Reductions	50,145	3,643,999
FUND BALANCE, June 30, 1985	$ -0-	$1,153,130

This schedule is prepared from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules on page 29.

BOARD OF REGENTS OF HIGHER EDUCATION
SCHEDULE OF REVENUES AND TRANSFERS IN - ESTIMATE AND ACTUAL
FOR THE TWO FISCAL YEARS ENDED JUNE 30, 1985

	Transfers
FISCAL YEAR 1983-84	
SPECIAL REVENUE FUND	
Estimated Revenue	$1,714,938
Actual Revenue	1,702,526
Collections Over(Under) Estimate	$ (12,412)
FISCAL YEAR 1984-85	
SPECIAL REVENUE FUND	
Estimated Revenue	$2,294,805
Actual Revenue	1,959,006
Collections Over(Under) Estimate	$ (335,799)

This schedule is prepared from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules on page 29.

BOARD OF REGENTS OF HIGHER EDUCATION
SCHEDULE OF PROGRAM EXPENDITURES BY FUND
BUDGET AND ACTUAL
FOR THE TWO FISCAL YEARS ENDED JUNE 30, 1985

	Administration Program	
	Fiscal Year 1984-85	Fiscal Year 1983-84
GENERAL FUND		
Budget	$26,090	$24,994
Actual		
Personal Services	7,025	5,525
Operating Expenses	18,622	18,914
Total Actual	25,647	24,439
Unspent Appropriation Authority	$ 443	$ 555

This schedule is prepared from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules on page 29.

BOARD OF REGENTS OF HIGHER EDUCATION
SCHEDULE OF PROGRAM EXPENDITURES BY OBJECT
FOR THE TWO FISCAL YEARS ENDED JUNE 30, 1985

	Administration Program	
	Fiscal Year 1984-85	Fiscal Year 1983-84
PERSONAL SERVICES		
Other Compensation	$ 7,025	$ 5,525
Total Personal Services	7,025	5,525
OPERATING EXPENSES		
Contracted Services	1,373	2,074
Supplies & Materials	3,041	76
Communications	1,466	2,592
Travel	11,596	11,372
Repair & Maintenance		672
Other Expenses	1,146	2,128
Total Operating Expenses	18,622	18,914
TOTAL PROGRAM EXPENDITURES	$25,647	$24,439

This schedule is prepared from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules on page 29.

BOARD OF REGENTS OF HIGHER EDUCATION

NOTES TO THE FINANCIAL SCHEDULES

JUNE 30, 1984 AND 1985

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The state of Montana utilizes the modified accrual basis of accounting which is described in the Montana Operations Manual.

Under the modified accrual basis of accounting, a valid obligation exists when the related liability is incurred except for the following items which are also considered valid obligations under state accounting policy.

--If the appropriation provided funds to complete a given project, the entire amount of a service contract may be accrued even though the services are rendered in fiscal years subsequent to the fiscal year in which the expenditure is accrued.

--The anticipated cost of equipment is expensed in the fiscal year in which budgeted.

--Goods ordered, but not received as of the fiscal year-end, may be accrued if the purchase order was issued in the fiscal year in which the anticipated expenditure is to be accrued.

Basis of Presentation

The financial schedules were prepared from the Statewide Budgeting and Accounting System (SBAS) without adjustments. Accounts are organized on the basis of funds according to state law. The following fund types are used by the board:

General - accounts for all financial resources except those required to be accounted for in another fund.

Special Revenue - accounts for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes. Legislative appropriations required to spend from this fund type.

AGENCY RESPONSE

THE MONTANA UNIVERSITY SYSTEM
33 SOUTH LAST CHANCE GULCH
HELENA, MONTANA 59620-2602
(406) 444-6570

COMMISSIONER OF HIGHER EDUCATION

RECEIVED
MAY 13 1986
MONTANA LEGISLATIVE AUDITOR

May 9, 1986

Scott A. Seacat
Legislative Auditor
Room 135, State Capitol
Helena, Montana 59620

Dear Mr. Seacat,

This letter is in response to the audit of the office of Commissioner of Higher Education and the Board of Regents for the two fiscal years ending June 30, 1985. We concur with the recommendations made by your auditors and appreciate the informal suggestions that were provided during the course of the audit.

With regard to your specific recommendations, I submit the enclosed responses and comments.

Sincerely,

Carrol Krause

Carrol Krause
Commissioner of Higher Education

CK/JHN/llt

RECOMMENDATION #1

The Commissioner of Higher Education submit federal grant reports in accordance with federal regulations.

Agency Response:

Concur.

The program directors have been informed that the reports must be submitted on time or that they obtain written extensions if a delay is necessary. While the federal requirement is clearly stated, we can never recall any problem occuring because of the federal timetables not being met. We will, however, renew our efforts to be in total compliance with the federal regulations.

RECOMMENDATION #2

The Commissioner of Higher Education comply with maintenance of effort requirements for State Student Incentive Grants.

Agency Response:

Concur.

In the past, we have requested a state appropriation equal to the anticipated federal appropriation on this basis that the program is a one to one match. Since the federal participation is declining, the state will have to request an amount exceeding the federal appropriation to meet the three year average maintenance of effort requirement. We will take this into consideration in our next budget request.

RECOMMENDATION #3

The Board of Regents of Higher Education comply with state law for establishment of the full Guaranteed Student Loan Advisory Council.

Agency Response:

Partially concur.

Steps will be taken in the next 60 days to fill the vacancies in the council consistent with state law. The program director feels that the advisory council was useful when the program was being established. Now that the program is operational the

council has very limited duties and membership interest has declined. Costs could be reduced by eliminating the requirement for the council in state law. We intend to approach the Regents prior to next January with a recommendation regarding the continuation of the council.

RECOMMENDATION #4

The Board of Regents of Higher Education:

A. Comply with state law for submission of unified budget requests.

Agency Response:

Concur.

While there is some confusion over what is meant by a "unified" budget, the State Board of Public Education has discussed the topic and an effort will be made to comply with the law.

B. Seek legislation to change the existing law, if necessary.

Agency Response:

Do not concur.

The cost associated with amending the constitution to remove the requirement is not worth the benefit.